



90.20 Fiscal Year-End Cut-Off Procedures

90.20.05

June 1, 2006

Introduction

This section provides policies and procedures for closing a fiscal year and for the preparation of the state of Washington's *Comprehensive Annual Financial Report* (CAFR). The cut-off policy provides guidance for all state agencies, to review their financial data and make necessary adjustments. The review and subsequent adjustments give the State Auditor's Office (SAO) reliable financial data on which to form an opinion and enable timely financial reporting.

The closing process is established in phases. Each phase requires completion of certain events in preparation for the next phase. For the Fiscal Year Ended June 30, 2006, the phases are as follows:

- **Phase 1** allows agencies time to record revenue and expenditure/expense accruals. Phase 1 deadline is **Monday, July 31, 2006**.
- **Phase 2** gives agencies time to record adjustments necessary to correct year-end totals. Phase 2 deadline is **Wednesday, September 13, 2006**. It is important that agencies complete all adjustment activity by the end of Phase 2 to facilitate the completion of the state disclosure forms which are due September 21, 2006. Refer to Section 90.40.
- **Phase 3** allows the SAO time to audit accounting data and recommend any necessary adjustments. State agencies are not allowed to make entries into the Agency Financial Reporting System (AFRS) during Phase 3, unless approved by OFM. Phase 3 deadline is **Wednesday, October 11, 2006**.
- **Phase 4** is when the OFM prepares the CAFR.

A schedule of phase cut-off dates is published annually by OFM as part of the directive implementing these policies.

90.20.10

June 1, 2006

Cash cut-off date and policies

- 90.20.10.a Cash is cut-off at June 30. Cash activity occurring **after** June 30 is recorded in the ensuing fiscal year.
- 90.20.10.b Treasury fund cash receipts received by an agency **on or before June 30** are recorded in Fiscal Month 12 or 24 as “in-process” cash prior to the June monthly cut-off. If these amounts are not deposited in the State Treasury on or before the Office of State Treasurer’s (OST) fiscal year cut-off date (usually June 30), the entry by OST to treasury cash activity will be made in the ensuing period. (Refer to Subsection 90.30.20 for illustrative entries.)
- 90.20.10.c Treasury fund cash disbursements **paid on or before OST's cut off date** are recorded as "in-process" cash prior to the June fiscal month cut-off. (Refer to Subsection 90.30.50 for illustrative entries.)
- 90.20.10.d Local fund cash receipts deposited on or before June 30 are recorded with a debit to GL Code 1110 “Cash in Bank.” Local fund cash receipts received on or before June 30, but not deposited until after June 30, are recorded as a debit to GL Code 1120 “Undeposited Local Cash.” Amounts recorded as GL Code 1120 are reclassified to GL Code 1110 “Cash in Bank” when deposited in the local bank account. (Refer to Subsection 90.30.20 for illustrative entries.)
- 90.20.10.e Local fund disbursements made on or before June 30 are recorded with a credit to GL Code 1110 “Cash in Bank.” (Refer to Subsection 90.30.50 for illustrative entries.)
- 90.20.10.f Administering agencies are responsible to review cash balances for the accounts they administer and reconcile them to the Office of the State Treasurer’s balances. Refer to Subsection 80.10.50. Administering agencies should closely monitor cash balances at year end and alert their OFM Accounting Consultant if they note unusual balances or activity.

90.20.15

June 1, 2006

Prior period adjustments

Prior period adjustments are corrections of errors discovered after a fiscal year has been closed. There are two types of prior period adjustments, material and immaterial.

OFM makes the final determination as to whether a prior period adjustment is material or immaterial. To facilitate this determination, prior period adjustments that equal or exceed the roll-up fund's materiality level as computed annually and listed in Subsection 75.30.40 of this manual are to be brought to the attention of the agency's OFM Accounting Consultant. For purposes of Subsection 75.30.40, roll-up fund materiality is the lesser of (a) \$1 million or (b) the greater of the following two amounts: five percent of roll-up fund equity or one percent of roll-up fund gross activity (revenues plus expenditures/expenses).

Material Prior Period Adjustments

90.20.15.a Material prior period adjustments are reported as adjustments to beginning fund equity. If a material prior period adjustment is required, the following source documents are prepared by the agency, and the original copies forwarded to the OFM Accounting Consultant assigned to the agency.

1. Journal Voucher (A7-A) - Forward a properly completed Journal Voucher referencing the attached footnote disclosure [refer to (2) below] signed by the agency's fiscal officer indicating approval. Agencies assign the Current Document Number and leave the Reference Document Number blank. (OFM uses the reference document field for recording the OFM control number.)
2. Footnote Disclosure - Include a description of the nature of the adjustment, its impact on beginning balances, and the resulting effect on:
 - “Change in Net Assets” of prior periods for **proprietary and trust funds** (specifically, the under/overstatement of revenues and expenses); or
 - “Net change in fund balances” of prior periods for **governmental funds** (specifically, the under/overstatement of revenues and expenditures).

90.20.15.b Material prior period adjustments (except for agency funds and Subsidiary Accounts 997 and 999) are offset to GL Code 9220 “Prior Period Material Corrections (OFM Only)”. (Refer to Subsection 90.30.30.a for an illustrative entry.)

90.20.15.c Material prior period adjustments to Subsidiary Accounts 997 and 999 are offset to GL Code 9910 “Current Period Clearing Account (Subsidiary Accounts Only).” (Refer to Subsection 90.30.30.c for an illustrative entry.)

- 90.20.15.d All material prior period adjustments (as reflected on the agency prepared Journal Voucher) are entered by OFM after approval from the OFM Accounting Consultant. After OFM enters the Journal Voucher into AFRS, a copy of the Journal Voucher, signed by the approving OFM Accounting Consultant, is returned to the submitting agency.

Immaterial Prior Period Adjustments

- 90.20.15.e Immaterial prior period adjustments are reported on the financial statements as miscellaneous revenue or other revenue.

Generally, immaterial prior period adjustments (except for agency funds and Subsidiary Accounts 997 and 999) are offset by a credit to GL Code 3215 “Immaterial Adjustments to Prior Periods” with Revenue Source Code 0485 “Immaterial Prior Period Adjustments.” (Refer to Subsection 90.30.30.b for an illustrative entry.)

Debits to Revenue Source Code 0485 “Immaterial Prior Period Adjustments” are generally not appropriate and require the approval of the agency’s OFM Accounting Consultant. Adjustments to clear overliquidated payables or to write down inventory balances should be recorded as expenditures against the applicable appropriation code. For guidance related to shortages in estimated accruals, refer to Subsection 90.20.47.

Write-offs of accounts receivable balances should be debited to the related allowance for doubtful accounts per Subsection 85.54.55. Absent an allowance account in a governmental fund, the adjustment should be debited to the revenue source code that was credited when the receivable was recorded. In a proprietary fund if no allowance account exists, accounts receivable are written off to GL Code 6515 “Bad Debts Expense.” If the receivable originated through an offset to expenditures, then the adjustment to write down the receivable should be a reversal of the original entry. If the expenditure occurred in a prior appropriation period, refer to Subsection 85.40.10 for procedures relating to belated claims.

If, in the second year of a biennium, a prior period adjustment relates to a biennial appropriation that has not lapsed, the prior period adjustment is to be recorded to/against the applicable appropriation.

Immaterial prior period adjustments resulting in the receipt of cash for the recovery of an expenditure against a prior appropriation are recorded with a credit to GL Code 3210 “Cash Revenues” using Revenue Source Code

0486 “Recoveries of Prior Appropriation Expenditures.” Revenue Source Code 0486 should only be debited in very limited circumstances and **only** with prior approval of the agency’s assigned OFM Accounting Consultant.

Refer to Subsection 90.20.45 for guidance on immaterial prior period adjustments resulting from overestimating an accrual against a prior appropriation.

- 90.20.15.f Record immaterial prior period adjustments to Subsidiary Accounts 997 and 999 as current period additions and/or deletions. If an immaterial prior period adjustment to Subsidiary Account 997 involves accumulated depreciation, it should be recorded to GL Code 6591 “Depreciation Expense (General Capital Subsidiary Account only)”.
- 90.20.15.g Adjustments involving beginning cash balances in agency funds are to be prepared by the administering agency on a Journal Voucher and submitted to the OFM Accounting Consultant for entry. All other prior period adjustments to agency funds are recorded as current period activity.
- 90.20.15.h OFM may make adjustments between material and immaterial adjustment classifications based upon review during preparation of the CAFR.

90.20.20
June 1, 2006

Phase 1 – Revenue accrual activity

90.20.20.a

Revenue Accrual

When cash has not been received by June 30 for revenues meeting the appropriate recognition criteria, record the revenue as an accrual (revenue offset by receivable) in Fiscal Month 99 or 25. Record the liquidation of these accruals (receivable offset by cash) in the ensuing fiscal year when the cash is received. (Refer to Subsections 90.30.40.a and b for illustrative entries.)

If cash was received or a receivable recorded for a revenue which **does not** meet the revenue recognition criteria for governmental or proprietary funds as appropriate, record the revenue in GL Code 5192 “Deferred Revenues - Short-Term” or GL Code 5292 “Deferred Revenues - Long-Term” depending upon when it is expected to be realized. These amounts are recognized as revenue in the future period when they meet the applicable revenue recognition criteria. (Refer to Subsection 90.30.40.c for an illustrative entry.)

90.20.20.b

Governmental Funds Revenue Recognition

Revenues in governmental funds are recognized in the period in which they become both **available** and **objectively measurable** as follows:

In general, the following revenues are deemed measurable and available at June 30 and are accrued in the concluding fiscal year:

- Taxes imposed on exchange transactions (gross receipts and fuel taxes,) pertaining to underlying exchange transactions that occur as of June 30, are accrued as revenue in the concluding fiscal year if expected to be collected within twelve months of fiscal year end.
- Federal grant revenues are recognized according to the guidelines provided in Subsection 50.30.70. In general, federal grant revenues are recognized when the qualifying grant expenditures are made provided that the availability criteria is met.
- Generally, revenues from licenses, permits, and fees are recognized as revenue in the fiscal year in which they are collected.
- Property taxes, which are due and expected to be collected within 60 days of the fiscal year end, are accrued as revenues in the concluding fiscal year for Generally Accepted Accounting Principles (GAAP) reporting purposes.
- Private donation pledges are accrued when the eligibility requirements are met, provided that they are verifiable, unconditional, probable of collection, measurable and available.
- All other revenues are accounted for in accordance with GAAP for both budget and accounting reporting purposes.

90.20.20.c

Proprietary and Trust Funds Revenue Recognition

Revenues for proprietary and trust funds are accounted for on a full accrual basis which means they are recognized in the period when earned.

90.20.20.d

Revenue Accrual Estimate Adjustments

Record over and under accruals of estimated revenue from the prior fiscal year-end as adjustments to revenue in the current period; record over accruals as a decrease to revenue in the current period, and under accruals as an increase to revenue in the current period.

90.20.20.e

Treasury Deposit Income

The fiscal year-end accrual for treasury deposit income is recorded by the OST as follows:

1. **Treasury Funds**: Treasury deposit income is reported by OST as Agency 705 activity for the concluding fiscal year. The OST records the interest as payable in Account 076 by a credit to GL Code 5153 “Due to Other Funds” with the appropriate subsidiary account code. In addition, OST records the interest in the various receiving accounts in Agency 705 by debiting GL Code 1353 “Due from Other Funds” with Subsidiary Account Code 076000, and crediting GL Code 3205 “Accrued Revenues” with Revenue Source Code 0408 “Treasury Deposit Income.”
2. **Treasury Trust Funds**: Treasury deposit income for treasury trust funds is reported by OST in Agency 705. The OST records the interest as payable in Account 409 by crediting GL Code 5153 “Due to Other Funds” with the appropriate subsidiary account code. In addition, OST records the activity in the various receiving accounts in Agency 705, by debiting GL Code 1353 “Due from Other Funds” with Subsidiary Account Code 409000 and crediting GL Code 3205 “Accrued Revenues” with Revenue Source Code 0408 “Treasury Deposit Income.”
3. **Agency Funds**: The revenue associated with treasury deposit income is *not* recorded in agency funds. Instead, OST records interest revenue in the associated operating account. The operating account that records interest revenue is the account which has ownership of the cash accounted for in the agency fund.

The OST records treasury deposit income earned in agency funds for treasury funds as payable in Agency 705, Account 076, by a credit to GL Code 5153 “Due to Other Funds” with a valid subsidiary account code for the appropriate operating account. OST notifies the administering agencies of the various agency funds of the correct amount of deposit income by July 15th. Administering agencies are to notify OST, in writing, of the proper accounts to which to distribute the treasury deposit income.

Upon notification, OST records the distribution in the designated operating account in Agency 705 by debiting GL Code 1353 “Due from Other Funds” with Subsidiary Account Code 076000 and crediting GL Code 3205 “Accrued Revenues” with Revenue Source Code 0408 “Treasury Deposit Income.”

90.20.25

June 1, 2006

Phase 1 – Expenditure/expense recognition

90.20.25.a

Governmental Funds

Expenditures in governmental funds are recognized in the period in which the fund liability is incurred; that is, the period in which the goods or services are received. Goods and services **must be received** by June 30 to be included as an expenditure of the concluding fiscal year.

90.20.25.b

Proprietary and Trust Funds

In proprietary, and trust funds, expenses are recognized when incurred, if measurable. All goods and services received through June 30 **must be recognized** in the concluding fiscal year.

90.20.25.c

All Funds

Record expenditures/expenses incurred in the concluding fiscal year but **paid after June 30**, as an accrual (expenditure/expense offset by payable) in Fiscal Month 99 or 25. Record liquidation of the accrual (payable offset by cash) in the ensuing fiscal year when paid. (Refer to Subsection 90.30.50 for illustrative entries). If the ensuing year is the second fiscal year of a biennium and the expenditure is charged against a biennial appropriation, then there is an additional entry to reverse the initial accrued expenditure and record a cash expenditure.

90.20.30

June 1, 2006

Phase 1 - Expenditure/expense accruals for single year operating appropriations - mid-biennium

90.20.30.a

Expenditure/Expense Accruals

Record all expenditure/expense accruals charged against single year operating appropriations by July 31 of the ensuing year. If the amount of the accrual is known (i.e., the invoice has been received or the amount is otherwise known), record the entry to GL Code 6505 “Accrued Expenditures/Expenses.” If the amount is not known, **but can be reasonably estimated**, record the estimate in GL Code 6560 “Estimated Accrued Expenditures/Expenses.” Make estimates in accordance with the state's policy for developing accounting estimates. (Refer to Subsection 90.20.55.)

All expenditure/expense accruals (GL Codes 6505 and 6560) made during the first fiscal year of a biennium and charged against single year operating appropriations will be closed to fund equity during the end of the biennium automated closing process in AFRS.

Agencies should monitor the liquidation of estimated accruals at the account/appropriation level. While a subsidiary worksheet is the recommended method, agencies may use any reasonable means of documenting the liquidations. Reconcile the unliquidated balances at least monthly. Retain this subsidiary worksheet or other form of documentation for audit purposes.

90.20.30.b

Encumbrances

The balance in GL Code 6410 "Encumbrances" related to single year appropriations is to be **zero** at the end of the fiscal year. Goods and services ordered, but not received prior to close of business June 30, are accounted for as expenditures of the ensuing year or in the fiscal period received.

90.20.35

June 1, 2006

Phase 1 - Expenditure/expense accruals for biennial appropriations - mid-biennium

90.20.35.a

Expenditure/Expense Accruals

Record all expenditure/expense accruals charged against biennial appropriations by July 31 of the ensuing year. Both actual and estimated accruals are to be recorded in GL Code 6505 "Accrued Expenditures/Expenses." Actual accruals are based on an invoice or other information that is otherwise known. Estimates are made if an amount is not known, **but can be reasonably estimated**. Make estimates in accordance with the state's policy for developing accounting estimates. (Refer to Subsection 90.20.55.)

Reverse accrued expenditures/expenses (GL Code 6505) recorded during the first fiscal year of the biennium at the beginning of the second fiscal year of the biennium. After the reversal, payments of the accruals are to be treated the same as other expenditures/expenses of the second fiscal year.

90.20.35.b

Encumbrances

Goods and services ordered, but not received prior to June 30 of the first fiscal year of the biennium, are recorded as encumbrances in the first fiscal year by debiting GL Code 6410 "Encumbrances" with an offsetting credit to GL Code 9510 "Reserved for Encumbrances." **For budgeted funds, total allotment charges plus these encumbrances cannot exceed the approved spending authority (approved biennial budget).**

Additionally, for encumbrances relating to capital appropriations, a sufficient available fund balance must exist or an appropriate budget explanation explaining the difference must be included with fiscal year-end disclosure forms. Refer to Subsection 85.30.10 for further information about encumbrance accounting.

A second option for mid-biennium reporting of encumbrances related to biennial appropriations is to record them at a summary level by debiting GL Code 9514 “Encumbrances for Continuing Operating Appropriations” with an offsetting credit to GL Code 9510 “Reserved for Encumbrances.” This entry is reversed at the beginning of the ensuing fiscal year by debiting GL Code 9510 and crediting GL Code 9514. At the time the summary level entry is reversed, the encumbrances need to be recorded in GL Code 6410 against an actual appropriation. Prior to using GL Code 9514, agencies should check with their assigned OFM Accounting Consultant.

90.20.40

June 1, 2006

Phase 1 – Expenditure/expense accruals - end of biennium

90.20.40.a

Expenditure/Expense Accruals

Record all expenditure/expense accruals for the concluding fiscal year by July 31 of the ensuing year. If the amount of the accrual is known (i.e., the invoice has been received or the amount is otherwise known), record the entry to GL Code 6505 “Accrued Expenditures/Expenses.” If the amount is not known, **but can be reasonably estimated**, record the estimate in GL Code 6560 “Estimated Accrued Expenditures/Expenses.”

An exception to this would be: for governmental funds, when a capital appropriation has been reappropriated, no estimated accrual is necessary. Make estimates in accordance with the state's policy for developing accounting estimates. (Refer to Subsection 90.20.55.)

All accrued expenditures/expenses (GL Codes 6505 and 6560) are closed to fund equity during the end of the biennium automated closing process in AFRS.

Agencies should monitor the liquidation of estimated accruals at the account/appropriation level. While a subsidiary worksheet is the recommended method, agencies may use any reasonable means of documenting the liquidations. Reconcile the unliquidated balances at least monthly. Retain this subsidiary worksheet or other form of documentation for audit purposes.

90.20.40.b

Encumbrances - Operating Appropriations

The balances of GL Codes 6410 “Encumbrances” and 9514 “Encumbrances for Continuing Operating Appropriations” are to be zero at the end of the biennium. Goods and services ordered, but not received prior to close of business June 30, are accounted for as expenditures of the ensuing year or in the fiscal period received.

90.20.40.c

Encumbrances - Capital Appropriations

At biennium-end, encumbrances for capital appropriations that are **reappropriated** in the new biennium are closed to GL Code 9513 “Encumbrances for Reappropriated Capital Appropriations” in the concluding biennium, **provided a sufficient available fund balance exists**. These amounts are offset by GL Code 9510 “Reserved for Encumbrances.” The entry to close GL Code 6410 “Encumbrances” is reversed at the beginning of the ensuing biennium with the encumbrance charged to the reappropriated appropriation. (Refer to Subsection 90.30.60.c for an illustrative entry.)

90.20.45

June 1, 2006

Phase 1 – Unliquidated estimated accruals

Unliquidated estimated accruals from the prior appropriation period are liquidated using GL Code 3215 “Immaterial Adjustments to Prior Periods” with Revenue Source Code 0486 “Recoveries of Prior Appropriation Expenditures.” The adjustment is made when it is expected that no further payments will be made, normally within 12 months of the end of a biennium, but no later than two years following the accrual.

90.20.47

June 1, 2006

Phase 1 – Shortages in estimated accruals

Shortages in estimated accrued expenditures/expenses are to be treated as **belated claims** of the prior appropriation period. Belated claims are obligations for goods and services which were received on or before June 30 but were not accrued in the concluding appropriation period. Refer to Subsection 85.40.10 for procedures relating to belated claims.

90.20.50

June 1, 2006

Phase 1 – Interagency accruals

90.20.50.a

Interagency receivables/payables are required to be in balance at fiscal year-end. Agency cooperation is essential to balance interagency receivables and payables at the statewide level. Agencies are to contact the other agencies involved to resolve any differences. If disagreements exist, the OFM Accounting Consultant assigned to each agency is to be contacted to resolve the issues. In establishing receivable billings, interagency receivables/payables are recorded as of the date goods and services are delivered. A reasonable estimated billing, in lieu of an actual amount, is an acceptable basis for the receivable/payable.

When payment of an interagency payable is made by Journal Voucher (i.e., Inter-Agency Payments (IAP)) transfer between Treasury funds, or EFT, the OST processing date is considered the date of liquidation of the receivable/payable. If the payment is made by warrant or local fund check, the date recorded on the payment document is considered the date of liquidation. Payment should be made when the actual bill is received.

Interagency billings for services rendered as of June 30 are to be sent out by vendor agencies no later than July 15. If a vendor agency cannot produce actual billings by July 15, the agency is to send out estimated billings by July 15. Estimated billings are to be clearly marked as estimates. The State Board for Community and Technical Colleges have until July 21 to send billings due to summer school considerations.

Actual billings received by customer agencies are to be accrued in GL Code 6505 “Accrued Expenditures/Expenses” by July 31 in the concluding fiscal year, using Fiscal Month 99 or 25.

For **biennial appropriations** at mid-biennium, expenditures related to estimated billings received by customer agencies are accrued in GL Code 6505 “Accrued Expenditures/Expenses” by July 31 in the concluding fiscal year using Fiscal Month 99.

At the **end of an appropriation period**, expenditures related to estimated billings received by customer agencies are accrued in GL Code 6560 “Estimated Accrued Expenditures/Expenses” by July 31 in the concluding fiscal year using Fiscal Month 99 or 25.

Disputed billings are treated as estimates whether based upon actual invoices or not. Disputed billings are to be paid when resolved.

90.20.50.b

The following payables **should not** be recorded as interagency receivable/payables:

1. Amounts due to the Department of Revenue for taxes are recorded as GL Code 5158 "Due to Department of Revenue - Sales and Use Tax,"
2. Amounts due to the Department of Labor and Industries for workers' compensation are recorded as GL Code 5124 "Accrued Salaries and Fringe Benefits Payable,"
3. Amounts due to the OST under Certificate of Participation program are recorded in GL Code 5173 "Certificates of Participation Payable," if short-term, or GL Code 5273 "Certificates of Participation Payable," if long-term.
4. Department of Retirement Systems (DRS) withholdings for retiree medical insurance premiums due to Health Care Authority (HCA) are recorded by DRS as GL Code 5152 "Due to Other Governments" and by HCA as GL Code 1352 "Due from Other Governments,"
5. Amounts due to the Department of Retirement Systems (DRS) as a result of special billings for retirement contributions are recorded as GL Code 5152 "Due to Other Governments,"
6. Amounts due to or from state Agriculture Commodity Commissions are recorded as GL Code 5152 "Due to Other Governments" or GL Code 1352 "Due from Other Governments," and,
7. Amounts due to or from the following discrete component units are recorded as GL Code 5159 "Due to Primary Government" or GL Code 1359 "Due from Component Units," as follows:

<u>Component Unit</u>	<u>Agency Code</u>
Washington Economic Development Finance Authority	1060
Washington State Housing Finance Commission	1480
Washington Higher Education Facilities Authority	3460
Washington Health Care Facilities Authority	5990
Washington Public Stadium Authority	7270

90.20.50.c State agencies, including the State Board for Community and Technical Colleges (SBCTC) and the Community and Technical Colleges (CTCs), are to record amounts due to, or from, SBCTC, CTCs and the Colleges' Center for Information Services, as follows:

<u>If due to or from entity is:</u>	<u>Use subsidiary code</u>
CTCs (Agencies 6050 to 6960)	6990xx *
SBCTC (Agency 3520)	699000
Colleges' Center for Information Services (Agency 6990)	699099

*(where xx is the second and third numbers of the 4 digit agency code for the specific community or technical college)

90.20.55

June 1, 2006

Phase 1 - Accounting estimates

- 90.20.55.a An accounting estimate is an approximation of an expenditure/expense, revenue, financial statement account, item, or element. Accounting estimates are included in the state's accounting records because of the following:
1. The measurement of some amounts or the valuation of some accounts is uncertain, pending the outcome of future events.
 2. Relevant data concerning events that have already occurred cannot be accumulated on a timely, cost-effective basis.
- 90.20.55.b Agencies are responsible for making the accounting estimates to be included in their accounting records. Estimates are based on subjective as well as objective factors. These decisions are normally based on knowledge and experience of past and current events, assumptions about conditions expected to exist, and courses of action expected to be taken.

90.20.55.c

Agencies are responsible for establishing a process for preparing accounting estimates. The process normally consists of the following:

- Identifying situations for which accounting estimates are required.
- Identifying the relevant factors that may affect the accounting estimate.
- Accumulating relevant, sufficient, and reliable data on which to base the estimate.
- Developing assumptions that represent management's judgment of the most likely circumstances and events with respect to the relevant factors.
- Determining the estimated amount based on the assumptions and other relevant factors.

Once the agencies have determined the accounting estimate, they must record the accounting estimate in accordance with state accounting policies.

90.20.60

June 1, 2006

Phase 1 - Interfund accruals

Interfund receivables and payables, GL Codes 1353 and 5153, 1653 and 5253, 1355 and 5155, and 1350 and 5150, are to be in balance at the agency level. The date goods and services are delivered is used to establish interfund receivables and payables. When payment of an interfund payable is made by Journal Voucher transfer between treasury funds, the OST processing date is considered the date of liquidation of the receivable/payable. If the payment is made by warrant or local fund check, the date recorded on the payment document is considered the date of liquidation. Payment should be made when the actual bill is received.

90.20.65

June 1, 2005

Phase 1 - Agency funds

Agency funds are custodial in nature and do not report operations or fund balance. At fiscal year-end, these funds only report assets and liabilities **existing as of June 30.**

90.20.70

June 1, 2006

Phase 2 - Adjustment activity

90.20.70.a

Phase 2 is the final opportunity for state agencies to enter adjustments for the concluding fiscal year before the data are provided to the SAO for final audit and released as the unaudited fiscal year activity. Agencies are to review reports to ensure that assets and liabilities are properly and completely stated, and that revenues and expenditures/expenses are accurately reflected and recorded in the proper period using the correct coding. Any entries processed after Phase 2 will not be reflected in the statewide budgeting reports until after release of the CAFR and the final audited data.

90.20.70.b

Journal Vouchers are used for adjusting entries posted during Phase 2 for Fiscal Month 99 or 25. Journal Vouchers are to be identified as to the biennium and fiscal month to which they pertain. Examples of types of activities to perform and adjustments to make are as follows:

1. **Review and Adjust Balances.** Administering agencies are to review cash and in-process accounts, GL Code Series 4XXX and 7XXX, for the funds they administer and reconcile cash balances to the OST's cash balances. Administering agencies are also to make a review of their funds' asset, liability, and equity balances for reasonableness. If adjustments are required, administering agencies are to contact the other agencies involved. Agencies contacted are to make the requested adjustments in AFRS, or if necessary, have the agency's assigned OFM Accounting Consultant help make the adjustment in AFRS. Refer to Subsection 80.10.90.
2. **Make Inventory Adjustments.** If the inventory balances (GL Code Series 14XX) in AFRS do not agree with the physical count at June 30, an adjusting entry is necessary to reflect the proper balances. Section 85.56 contains the procedures to follow to make inventory adjustments.
3. **Review and Adjust Leave Payables.** Review and adjust leave payables (GL Codes 5125 and 5225 "Accrued Annual Leave Payable," GL Codes 5127 and 5227 "Accrued Sick Leave Payable," and GL Codes 5128 and 5228 "Accrued Compensatory Time Payable") as necessary to ensure correct year-end balances in compliance with Governmental Accounting Standards Board (GASB) Statements 16 and 34. **Transactions to record increases and decreases are to be recorded separately, not netted.**

Note: **Annual leave** payable is to include both the dollar value of the annual leave due employees *and* the employer's share of the associated payroll related payments; e.g., pension and social security and Medicare taxes.

A liability for **sick leave** is to be accrued for the estimated amount that will be *paid* to employees as sick leave buy-out upon retirement. No liability is accrued for the estimated dollar value of allowed time off. The sick leave accrual is to include the dollar value of the estimated amount that will be paid in cash and the employer's share of the associated payroll related payments; e.g., social security and Medicare taxes (pension is not paid on sick leave buy-out).

Compensatory time payable is to include both the dollar value of the compensatory time due employees *and* the employer's share of the associated payroll related payments; e.g., pension and social security and Medicare taxes.

Additionally, review **shared leave** activity to ensure that it is recorded in both the accounting and payroll systems in such a way as to allow for statewide reporting of shared leave activity. Refer to Subsection 85.34.20 for procedures for making accounting entries.

4. **Balance Transfers.** Transfers (Revenue Source Codes 0484 and 06XX, and Object M) are to be in balance (i.e., net to zero) at the agency level.
5. **Reclassify Revenue Source Codes.** Reclassify Revenue Source Codes 09XX to the appropriate asset, liability, revenue, or expenditure/expense account.
6. **Eliminate Revenue Source Codes.** In **proprietary funds only**, eliminate Revenue Source Codes 0611, 0612, 0860, 0863, 0864, and 0865 and record them through a debit to GL Code 3225 "Revenue Adjustments/Eliminations (GAAP)" and a credit to the appropriate liability account.
7. **Allocate Interagency Reimbursement Balances.** Allocate balances in Interagency Reimbursements - Unidentified and Intra-Agency Reimbursements - Unidentified (Subobjects SZ and TZ) to the appropriate subobject level under Objects S and T.
8. **Make Object S related adjustments.** Normally, payments received by proprietary funds for goods and services are recorded as revenue with appropriate revenue source codes. (Refer to Subsection 90.30.70.b for an illustrative entry.) However, in the case of budgeted proprietary funds, interagency reimbursements are recorded for budgetary purposes as credits to expense using Object S. These cases require additional entries to record revenue and to eliminate expenditure reductions for GAAP reporting. Record revenue by crediting GL Code 3225 "Revenue

Adjustments/Eliminations (GAAP)” with appropriate revenue source codes. Record the expenditure recovery elimination by debiting GL Code 6525 “Expense Adjustments/Eliminations (GAAP),” with appropriate subobjects within Object S. The GAAP adjustment accounts, GL Codes 3225 and 6525, are not recognized for budgetary reporting. For GAAP reporting purposes, interagency reimbursements are reflected as revenues since the two expense accounts, GL Codes 6510 and 6525, offset each other. (Refer to Subsection 85.90.60.b for further information and to Subsection 90.30.70.a for illustrative entries.)

Record Object S “Interagency Reimbursements” received by funds other than proprietary funds as normal reimbursements of expenditures by crediting GL Code 6510 “Cash Expenditures/Expenses” using Object S with appropriate subobjects. (Refer to Subsection 90.30.70.c for an illustrative entry.)

9. **Make Object T related adjustments.** Total Object T “Intra-Agency Reimbursements” are to be reviewed to ensure they are in balance (net to zero) at the sub-object level for all funds within the following GL Codes: 6505 “Accrued Expenditures/Expenses,” 6510 “Cash Expenditures/Expenses,” and 6560 “Estimated Accrued Expenditures/Expenses.” In the case of budgeted proprietary funds, intra-agency reimbursements are recorded as a credit to expense using Object T. Therefore, an adjustment is required to record revenue by crediting GL Code 3225 “Revenue Adjustments/Eliminations (GAAP)” with an appropriate revenue source code and debiting GL Code 6525 “Expense Adjustments/Eliminations (GAAP)” Object T. Only in the case of GL Code 6525 transfers is there no corresponding Object T offset. (Refer to Subsection 85.90.60.a for further information and to Subsection 90.30.80.a for illustrative entries.).

Record Object T “Intra-Agency Reimbursements” received by funds other than proprietary funds as reduction of expenditures. (Refer to Subsection 90.30.80.c for an illustrative entry.)

10. **Review Fund Balance Reserves.** Review fund balance reserves and corresponding asset balances to ensure they are in balance at the agency/fund level. The balances in the following sets of GL Codes are to net to zero:

Governmental Funds Only:

1130	Petty Cash, and
9556	Reserved for Petty Cash
1210	Investments, and
9557	Reserved for Investments
1410	Consumable Inventories, and
9540	Reserved for Consumable Inventories

All Funds - **Biennial Appropriations - Mid-Biennium:**

6410	Encumbrances, or
9514	Encumbrances for Continuing Operating Appropriations, and
9510	Reserved for Encumbrances

All Funds - **Capital Appropriations at End of Biennium:**

9513	Encumbrances for Reappropriated Capital Appropriations, and
9510	Reserved for Encumbrances

Exception situations:

In governmental funds, donated commodities, such as immunization supplies, are recorded in GL Code 1415 "Donated Inventories" and are offset by GL Code 5192 "Deferred Revenues." (Refer to Subsection 85.56.40 Accounting for Donations of Consumable Inventories.)

In governmental funds, GL Codes 9570 "Reserved for Other Receivables" and the long-term 16XX "Receivables" are to agree, with two exceptions:

- GL Code 9560 "Reserved for Student Loans Receivable" is to agree to the net of the student loan portions of GL Code 1614 "Loans Receivable," and GL Code 1644 "Allowance for Uncollectible Loans Receivable," and
- There is to be no reserve if the receivable is offset by deferred revenue or a liability.

11. **Adjust Receivables.** Report receivables as the net amount expected to be collected. **An adjusting entry to the related GL Code Series 134X “Allowance for Uncollectible Receivables” accounts may be required to properly reflect the net estimated realizable value of the receivables.** Subsection 85.54.55 describes the procedures to be followed in making the adjustments.
12. **Review Investments.** Review investments (GL Code Series 12xx) for compliance with investment valuation policies as presented in Section 85.52. Generally, non-participating interest earning investments (e.g., non-negotiable certificates of deposit with redemption terms that do not consider market rates) are to be recorded at cost; all other short-term investments are to be recorded at amortized cost; and non-current investments are to be recorded at fair value.
13. **Reconcile Capital Assets.** Reconcile the balances in GL Code Series 2XXX “Capital Assets” in AFRS with the balances for capital assets with a unit cost of \$5,000 or more in the Capital Asset Management System (CAMS) or other authorized capital asset subsidiary system. An adjusting entry is required when the subsidiary system and AFRS are out of balance. **Separately record additions, deletions, and adjustments to capital assets occurring during the year. Adjusting entries to capital assets are not to be netted.** Subsection 85.60.60 contains the procedures for adjusting capital assets.
14. **Record Depreciation.** Record depreciation using the procedures contained in Subsection 85.60.40.

Please note: The procedure for recording depreciation in the General Capital Assets Subsidiary Account 997 changed in Fiscal Year 2004. Refer to Subsection 85.65.56.a.
15. **Record Long-Term Obligations.** Record GL Code Series 52XX “Long-Term Obligations” for governmental fund type accounts in Account 999 “General Long-Term Obligations Subsidiary Account.” In proprietary and trust fund type accounts, long-term obligations are recorded directly in the accounts. For all long-term obligations, ensure that the amount due in the next year is recorded in the short-term GL Code (51XX).

Transactions to record increases to individual liability accounts are to be recorded separately from decreases, not netted.

For governmental fund type accounts, ensure that the amount of all new Capital Leases recorded in the Subsidiary Account 999, agree to amounts reported in the governmental fund type accounts in GL Code 3221 “Other Financing Sources” with Revenue Source Code 0809 “Capital Lease Acquisitions.”

16. **Review Certificates of Participation Payable.** Review and adjust GL Codes 5173 and 5273 “Certificates of Participation Payable,” to ensure year-end balances are correct and agree with balances maintained by the OST. **Transactions to record increases to the COP liability accounts are to be recorded separately from decreases, not netted.** Record in the short-term GL Code 5173 the COP amount payable in the next fiscal year.

For governmental fund type accounts, ensure that the amount of all new Certificates of Participation (COPs) recorded in Subsidiary Account 999 agrees to amounts reported in the governmental fund-type accounts in GL Code 3221 “Other Financing Sources” and Revenue Source Code 0807 “Certificates of Participation.”

17. **Review Deferred Revenues.** Review deferred revenues recorded in governmental funds. Revenues are to be deferred when one of the two following criteria is met: 1) revenues are not yet earned, and 2) cash is not available. Refer to Subsection 85.70.40.
18. **Reclassify Outstanding Travel Advances.** Reclassify all outstanding travel advances currently recorded as Object G “Travel” expenditures, if any, to GL Code 1383 “Travel Advances.” This entry can be reversed in the ensuing period.
19. **Amortize Gain/Loss on Bond Refunding.** In **proprietary funds only**, amortize gain/loss on bond refunding recorded in GL Code 5268 “Deferred Gain/Loss on Bond Refunding”. Record the amortization in GL Code 6512 “Amortization Expense” using Subobject PF “Amortization of Gain/Loss on Bond Refunding.”
20. **Ensure that information reported on State Disclosure Forms is accurately recorded in AFRS.** Phase 2 ends on Wednesday, September 13, 2006. Section 90.40 State Disclosure Forms are due Thursday, September 21, 2006. All state agencies should review the information in AFRS that is to be reported on these forms and make necessary adjustments to AFRS prior to the end of Phase 2. It is important that disclosure forms are reviewed prior to September 13, in order to ensure adjustments can be made to AFRS before Phase 2 ends.

90.20.80

June 1, 2006

Phase 3 – Office of the State Auditor adjustment activity

90.20.80.a

State agencies are not allowed to make entries into AFRS during Phase 3, unless approved by OFM.

During Phase 3, the SAO will have the opportunity to recommend any **material** adjustments to agencies' balances. Agencies are to review the recommended adjustments from SAO. If an agency agrees with the adjustments recommended by the SAO, the agency is to indicate its agreement on the accompanying batch control form. If an agency disagrees with the recommended adjustments, the agency is to indicate its reasons on the Journal Voucher.

90.20.80.b

All audit adjustments are recorded on a Journal Voucher form, assigned a current document number by the audited agency, indicating the applicable biennium and fiscal month, and signed by the audited agency's fiscal officer indicating agreement or disagreement. **Agencies are to cooperate with and assist the auditor, to ensure the audit adjustment Journal Voucher is complete and accurately prepared.**

90.20.80.c

To facilitate the audit adjustment phase, promptly notify the agency's OFM Accounting Consultant of any adjustments requested by the SAO.

90.20.80.d

Submit final SAO audit adjustments to OFM by the Phase 3 cut-off. SAO audit adjustments are to be reviewed by the OFM Accounting Consultants. If appropriate, OFM will post the recommended adjustments to agencies' balances in AFRS and notify the agencies concerned.

90.20.90

June 1, 2006

Phase 4 - Office of Financial Management compilation activity

90.20.90.a

OFM will prepare the state of Washington CAFR after the Phase 3 cut-off for the concluding fiscal year. During this process, it may be necessary to make certain corrections to the data for financial statement presentation purposes. If adjustments are needed, agencies will be consulted and will receive copies of Journal Vouchers for adjustments made to agency records by OFM.

90.20.90.b

The audited AFRS data at the close of the fiscal year will be used by the state for all subsequent fiscal year reports. This includes budgetary control reporting and preparation of biennial budget requests.

90.20.90.c

Agencies generating and/or publishing agency financial statements are to use the final audited AFRS data. (Refer to Subsection 90.10.50.)